CHAPTER i

INTRODUCTION

A. GENERAL

1. This Manual is a reference manual on how to develop each of the summary level stratification matrices. The objective is to provide the standard specifications for the mandatory Secondary Item Stratifications to ensure comparable results among all DoD Components. At the time of publication of this Manual, it is recognized that much of the detail data is not available from the current requirements and inventory systems in use by the Components. As the detail becomes available with the development and implementation of standard systems, it will be incumbent upon the Components to include that level of detail in the required summary matrices. Until that time, the matrices must at a minimum contain entries on the total lines for each of the levels and other requirements (i.e., Safety Level, Administrative Lead Time, etc.) at the wholesale level of supply. The department is transitioning from a requirements computation system based on supply effectiveness goals to one based on weapon system availability, also known as readiness-based sparing (RBS). Since the latter approach is still under development, it cannot be fully implemented. However, stock levels established by RBS models shall cover demand-related pipeline and safety-level requirements. Unless otherwise noted, those levels are to be included in the matrices on the lines commonly used for recurring requirements. The components will include a paragraph in the narrative submission advising what percentage of items and dollar value of requirements was computed by an alternate requirements determination method. In addition, a brief description of the methodology will be included.

2. This chapter discusses the purpose of the matrices and the process of stratifying assets against requirements in a prescribed priority and/or time sequence. It identifies each of the required matrices, their cutoff dates, and requirements for submission of the resulting data to the Office of the Secretary of Defense (OSD). This chapter also describes each of the different requirements elements and types of assets included in the stratification process.

3. Chapters 2 through 6 set forth the detailed specifications for the basic stratification matrices, their subsets and NONMANDATORY printout formats for each. Chapter 7 provides a method for transitioning the stratification data to the budget.

B. PURPOSE

1. The stratification processes will uniformly display the materiel requirements and

associated asset status of individual secondary items and generate summaries of essential information. The stratification matrices will be based on data and factors used in the daily management of the individual items . The matrices will provide the foundation for developing secondary item procurement and repair budgets, determining the readiness status, and relating assets to the Approved Acquisition Objective.

2. The stratification reports generated by the Central Secondary Item Stratification (CSIS) and Local Secondary Item Stratification (LSIS) processes are valuable sources of information on the current and projected status of supply; however, they are not management reports. For management uses, the stratification data should be analyzed and the results selectively presented in more suitable forms (e.g., graphs and tables) . The analyses should identify and highlight areas of management interest and areas needing attention, such as current and potential future asset imbalances (both asset shortages and overages) , trends in requirements and assets, changes in leadtimes, readiness status including war reserves, and progress toward the attainment of specific management goals.

C. **THE PROCESS**

1. Stated simply, the stratification process is the application of assets, by type, for an individual item against the requirements for the same item in a prescribed priority and time sequence. The basic supply data pertaining to requirements and assets may be accumulated in any appropriate manner at the Component's option; however, for stratification purposes, the data must be applied, arrayed, and submitted in accordance with the specifications contained in this Manual. The matrices described in this manual are summaries of individual national stock number (NSN) data. Unless specified otherwise, the summary data has been derived by the addition of like data from all applicable NSNS versus a calculation on the summary data.

2. The types of assets (e.g., retail, wholesale serviceable, unserviceable inducted and/or not inducted, on contract, on purchase request) will be sequenced from the most readily available for issue to the least readily available. The requirements (e.g., retail, war reserves, demands, safety level, repair cycle, leadtimes, and order quantities) will be sequenced from the most urgent to the least urgent. The most readily available type of asset (retail) will be applied against the requirements in priority sequence. If the most readily available assets are insufficient to satisfy the total requirement, the next most readily available assets will be applied, and so forth, until the requirements are satisfied or the assets are depleted. If the total assets exceed the requirements, the quantity of each type of asset beyond the requirements will be displayed. If the requirements exceed the assets, the deficit of

each type of requirement will be displayed. The asset and requirement status of each item will be determined individually, on a quantitative basis, and converted to dollars to permit various levels of summarization.

3. All secondary item assets, regardless of how. they are funded, shall be stratified in accordance with this Manual except for the following:

a. Assets already sold and issued from the lowest level of supply .

b. Assets owned by maintenance activities.

c. Property acquired for civil function purposes.

d. Defense Nuclear Agency assets .

e. National Security Agency assets.

f. Excess and surplus equipment at the Defense Reutilization and Marketing Office (DRMO) .

g. DoD-owned foreign excess equipment.

h. Materiel in storage facilities of the reporting DoD Component owned by other DoD Components or other Federal Agencies.

i. Items installed or incorporated in a higher assembly.

4. The stratification process will begin with the actual assets (on hand and on order) and the requirements (demand forecast, levels, and lead times) as of the cut-off date (close of business of the last day of the quarter) . This will reflect 3, 6, or 9 months of actual experience for the current year in the December, March, or June stratification, respectively. The September stratification cutoff will reflect the past fiscal year actual experience. The process will continue with the projection of the asset and requirement status at the end of the current (CY) , apportionment (AY) , and budget (BY) fiscal years (FYs). In the event biennial budgets are required, a budget year plus one (BY+1) FY will be added to the stratification. Those projections will be computed using the closing position and the simulation of subsequent issue, return, induction, delivery, award, and commitment transactions based on the lead time factors in the files. Table 1-1 displays the number of months of actual and simulation required for each stratification.

D. STRATIFICATION PRODUCT INFORMATION

1. Matrices

a. The stratification process will produce a series of summary matrices, each designed to meet particular objectives. These matrices will be processed at standard and at latest acquisition price unless otherwise specified. The summary

data submitted to OSD will be from the following matrices:

(1) I - Procurement Program. Matrix I displays the dollar value of materiel that the reporting DoD component requires to be either on hand or on order to sustain operations and the degree to which assets are available to meet those requirements .

(2) II - Repair Program. Matrix II displays the dollar value at standard and repair price of requirements, assets, and any deficits for reparable secondary items.

(3) III - Readiness Status . Matrix III is a snapshot of the dollar value of the supply system's capability to satisfy logistic requirements as of a point in time by measuring asset availability against the requirements element.

(4) IV - Approved Acquisition Objective & Retention. Matrix IV provides the dollar value of assets by the purpose for which held (i.e., approved acquisition objective, authorized retention, or potential DoD reutilization and/or disposal) .

(5) V - Retail Readiness, Requisitioning Objective, and Retention. Matrix V displays retail (supply systems or supply organizations, not the end user) level requirements, assets and overages and/or deficits.

b. To provide further insights into the status of inventory management and to assist in policy evaluation, the stratification can resummarize specific subcategories of items separately (e.g. , items subject to weapon systems management, items in a "buy" position, and low-demand essential items) .

2. Specifications

a. The specifications for each stratification matrix are presented in the subsequent chapters and define the categories of items to be included, the asset groupings, and the requirement elements to be displayed. The stub of the matrix (the vertical listing in the leftmost column) names each line-item entry. Those entries include the gross assets and deductions for those excluded followed by the requirements elements in descending priority sequence. The header of the matrix (the horizontal listing of the column heads) names the columnar entries. Those entries include requirements information and asset groupings (based on the immediacy of their availability for issue) in descending priority sequence from left to right (i.e., the most immediately available for issue - serviceable on-hand assets - is at the left and the least immediately available - on-order commitments - at the right) .

b. The assets must be applied to requirements by individual item in the prescribed sequence and then summarized. Subsequently, the results may be rearranged to facilitate analyses.

3. **Validation of Stratification Data.** To ensure that the data contained in the stratification summaries is as current as possible, each Component must establish internal procedures and controls that require the establishment of reasonable parameters and priorities for the identification of stratification line items for review. The Component procedures must ensure that necessary corrections identified during the stratification review process are made to the master file data.

4. **Summary Level Data.** OSD requires only summary stratifications at cutoff, not individual item stratifications. Table 1-1 sets forth the summary stratification that are required on a semi-annual basis (March and September) . In addition, the entire set of matrices must be generated for each Inventory Control Point (ICP) managing assets for a project.

Table 1-1
Summary of Matrices Required by OSD

By budget project and by ICP[a]	I	II	111	IV	V
Total Procurement	X	-	X	X	-
Weapon System[b]	X	-	X	X	-
Buy Items	X	-	-	-	-
Low Demand Essential	X	-	-	-	-
Total Repair	'-	X	-	-	-
Retail Only[c]	–	-	-	-	X

a. These summaries must be produced and maintained but will only be submitted upon request of OSD. ADUSD(MDM) must be informed by the the Component when it is unable to produce any of the subsets.

b. Until such time as the requisition and Defense Logistics Agency (DLA) supply systems can record individual demand to specific weapon systems, this stratification is optional for DLA.

c. Retail assets for which the ICP has visibility and that are included in wholesale requirements determination will be included in Tables I and II. All other retail assets will be reported in Table V only.

5. **Cutoff Dates.** Table 1-2 displays the cutoff date, title, and number of months of simulation for the CSIS. The first stratification of the fiscal year is the September stratification (October 1 – September 30). Only the September and March stratifications are mandatory. The cutoff dates for the LSIS are the same but no simulations are required. When it is feasible, Components are encouraged to simulate for longer periods for use in preparing Program Objective Memorandum (POM) submissions and may run optional computations as required.

Table 1-2
Cutoff Dates and Months of Simulation

Stratification Asset at cutoff	Submission Due to OSD	Mos of Actual	CY	AY	BY
September30	January 15	12	0	12	12
December 31	N/A	3	9	12	12
March 31	July 15	6	6	12	12
June 30	N/A	9	3	12	12

6. **Submission of Stratification Data.** OSD no longer requires the submission of hard copy stratification reports. With the exception of non-automated activities (reporting under Matrix V), all data are to be submitted in a media suitable for direct computer input. Required data elements are limited to submission identification, dollar values, counts, days, and percentages contained in the matrix cells/subcells. Data element names and in-the-clear titles as they appear in the optional printed formats in this manual are not submitted. Any required narratives and/or explanations are submitted in hard copy. Components will implement the following procedures for stratification data submissions:

a. Data and/or narrative submissions shall be addressed to the Office of the Assistant Deputy Under Secretary of Defense (ADUSD) Materiel and Distribution Management Policy, 3500 Defense Pentagon, Washington, D.C. 20301-3500. A copy will be furnished to the Director for Revolving Funds, 11 Defense Pentagon, Washington, DC 20301-1100.

b. Data and/or narratives shall be submitted to arrive at OSD by July 15 for the March cut-off and by January 15 for the September cut-off. Each Component must establish its cut-off date consistent with its internal review capabilities.

7. Dollar-Weighted Averages. For individual items, recurring requirement elements are expressed in terms of days. The repair cycle, order and/or ship time, and operating level determine the length of the retail pipeline. Repair cycle time (RCT), repair lead time (RLT), induction cycle time, administrative lead time (ALT), production lead time (PLT), and economic order quantity (EOQ) determine the length of the wholesale repair and procurement pipelines. For individual items, these times along with safety levels are expressed in terms of days. For summary stratifications, the individual item pipeline days must be dollar-weighted to provide a meaningful average lead time or safety level. The dollar-weighted average lead time is computed as follows:

a. For each item, calculate the value of 1 day of lead time by dividing the dollar value of the lead time by the number of days.

b. Calculate the total value of the lead time for all items in the summary.

c. Calculate the total value of 1 day of lead time for" all items in the summary.

d. Divide the value of the lead times for all items (b) by the value of 1 day of lead time for all items (c) to obtain the dollar-weighted lead time days. Example:

Dollar-Weighted Computation of Administrative Lead Time

NSN	ALT DAYS	ALT $ VALUE	Value of 1 one day ALT
1	30	2,800	93.33
2	240	180,000	750.00
3	180	1,250,000	6,944.44
Total		1,432,800	7,787.77

Dollar-weighted ALT = $1,432,800/7,787 or 183.891 days, rounded to the nearest whole number, 184 days.

E. REQUIREMENTS

The total requirements for an item may consist of several types, each computed in a different manner and for different purposes. The stratification matrices prescribe separate entries for each of those types of requirements. The major categories of requirements are war reserves, demands, recurring and non–recurring requirements, and dues out. Secondary items whose requirements are computed based on other approved requirements determination models, such as readiness-based sparing models, will use the levels established to cover the demand-related pipeline and safety-level requirements unless specified otherwise on specific matrices.

1. War Reserves

a. War Reserve Requirements. War reserve is the DoD inventory of mission-essential materiel required to attain operational objectives in the scenarios and other stockage objectives approved for programming in the Secretary of Defense Planning Guidance. Mission-essential materiel is materiel that is critical to the combat mission of a unit or weapon system and has minimal civilian sector availability. Materiel stocks will be limited to that portion of the planning period the unit will be in the theater of operation. All war reserves will be fully visible to and intensively managed by the integrated materiel manager. Only war reserve assets acquired with war reserve appropriations may be protected by the wartime or contingency materiel allocation system. These protected assets, if issued for other uses, i.e. , peacetime requirements, humanitarian support, etc. , may be repurchased with the funds generated from the sale of materiel and subsequently protected. Any other war reserve asset must be considered as available to meet peacetime requirements during the stratification process.

b. War Reserve Computation. The war reserve materiel requirements and assets will be computed for war reserves in accordance with DoD Directive 3110.6,. the Defense Planning Guidance, and DoD 4140.1-R. The war reserve requirement is computed as of the budget year (i.e., the FY95 war reserve requirement was computed in March, 1993; the FY94 requirement was computed in March, 1992; etc.). For stratification purposes, the approved war reserve computation applicable to

each FY is used. DoD Component activities that have not processed an updated war reserve computation will use the latest computation available and include a discussion of why war reserve materiel requirements were not recalculated in the narrative portion of the War Reserve Inventory Report, Report Control symbol DD-P&L(A)1913.

2. Recurring Requirements

a. General. Subsequent to the initial issue to fill the pipeline, recurring requirements are established to provide replenishment support for operational units and other programs of a recurring nature such as depot maintenance and repetitive assembly programs. Limited demand items and Cooperative Logistics Supply Support Arrangements (CLSSA) are considered recurring requirements for stratification purposes.

b. Historical Demands. Demands are based on a history of prior demands, on usage rates in conjunction with program factors (e.g., flying hours, operating hours, end-item densities) , depot maintenance programs, readiness requirements, and CLSSA.

c. Limited Demand. Limited demand requirements will reflect items for which "' historical or anticipated demands are insufficient to justify stockage on an economic basis, but for which mission essentiality requirements justify stockage. Safety levels are not authorized for limited demand items .

d. Establishment of Levels. Levels will be established for various segments of the recurring requirements, (i.e., safety level, RCT, PLT, ALT, and EOQ), and orders will be placed to replenish those levels as stocks are issued. In an ideal situation, all levels except the economic order quantity would be continually filled with assets on hand or on order.

e. Safety Level. The safety level (SL) will reflect the quantity of assets required for continued operation in the event of minor interruption of normal replenishment or unpredictable fluctuation in demands. Two types of safety levels are displayed in the stratification tables - customer wait time and weapon system operational readiness. The safety level for a specific National Stock Number (NSN) will be computed one way or the other or by another approved method as described in DoD 4140.1-R, chapter 3 (reference (c)) . Customer wait time goals will be computed for demand based non-weapon system items. Weapon system operational readiness goals will be based on attaining readiness goals for items managed in accordance with the Secondary. Item Weapon System Management (SIWSM) concept.

f. Repair Cycle Levels. Repair cycle levels are outlined in Chapter 3 of reference (c) . RCT will be the quantity of reparable items required to sustain operations during the repair cycle that commences when a maintenance replacement is

initiated and ends when the unserviceable asset is returned to stock in a serviceable condition. This will include removal, awaiting shipment, in-transit, in pre-repair screening, in-process of repair, and being returned to serviceable stock. The RCT will be stratified to the field repair cycle or the depot repair cycle, since these are the two mutually exclusive processes by which an unserviceable item is returned to a ready–for issue (RFI) condition.

(1) Field Repair Cycle. Field repair cycle will be recorded as the time from the date the initial demand for the replacement of an unserviceable item is entered into the supply system until either:

(a) The date the item is restored to serviceable and issuable condition by an organizational and/or inter-mediate maintenance activity, or

(b) The date it is determined to be beyond the capability of an organizational and/or intermediate maintenance activity to repair.

Unserviceable assets repaired at the field level will be processed through the retail repair cycle.

(2) Depot Repair Cycle

(a) The depot repair cycle time will include retrograde time (for Components with retrograde intransit visibility) , batch accumulation and transfer-to-maintenance time, and in-maintenance (maintenance turnaround) and return time. It relates to the interval from the time an unserviceable asset is recorded on the inventory records of a depot maintenance activity until the time it is restored to RFI condition. Unserviceable assets that are beyond the repair capability of the field levels of maintenance and are repaired at the wholesale level of maintenance will be processed through the depot repair cycle. An unserviceable asset that is beyond economic repair is normally condemned or washed out.

(b) The depot repair cycle level represents the quantity of assets required by the wholesale system to support demands on the supply system during the depot repair cycle time. It is a “net” requirement of the demands less the on-hand assets and due-in from procurement offset by potential recoverable unserviceable assets expected to be returned during the repair cycle time.

(c) The repair lead time level (RLT) will be the gross quantity of demands upon which the ICP is allowed to base maintenance requirements beyond the date of the last induction (repair stratification) or date of last buy (procurement stratification) for the year. The quantity will be based on the total demands forecasted to occur from the time of induction into a depot maintenance activity (organic, interservice, or contractor) until the assets have been repaired and recorded ready-

for-issue on the ICP's records. The induction cycle will be the normal planned interval between the induction of batches of unserviceable assets into maintenance. It will be based on the authorized batch size and is used in the simulation-to-repair process. The induction cycle is equal to the lesser of total demands during the batch accumulation time or the unserviceable, not inducted on-hand plus anticipated unserviceable returns, demands on the supply system during the PLT.

g. Administrative Lead time (ALT) Level. ALT is outlined in DoD 4140.1-R, chapter 3 (reference (c)). It will begin when an item's wholesale asset level is reduced to the reorder point and will end on the date the contractual instrument is executed. The ALT will include the time periods required for identification of the buy requirement; the review, approval and documentation of the purchase request and technical data review; and the processing and execution of the contractual instrument . This level is the quantity of Due-In-Committed assets the ICP is allowed to retain to support demands on the supply system during the ALT.

h. Production Lead Time (PLT) Level. PLT will begin at the end of ALT, or when the contractual instrument is executed, and will end when the material is received or when the date of confirmation of the first significant delivery has been received. This level is the quantity of assets that the ICP is allowed to procure and retain Due-In-Contracted to support the demands on the supply system during the PLT.

i. Economic Order Quantity (EOQ) Level. The EOQ, or buy frequency, will represent the normal planned interval between procurements. The duration of the cycle may be based on the standard Wilson EOQ formula or modifications of it. In terms of quantities, it is the requirement that represents the forecasted demands expected to occur between procurement actions.

(1) At the time of award, quantity discounts or other economic considerations may warrant the procurement of a larger than normal quantity. Only actual additives resulting from awards made before the stratification cutoff will be reflected. Future additives will neither be anticipated nor simulated.

(2) When a buy occurs within the stratification period, the EOQ establishes the full resource requirement including the portion that extends into the next FY. When no buy occurs within the stratification period, the EOQ protects only the assets procured in accordance with DoD policy in a previous period; therefore, the EOQ for buy in prior periods never exceeds the amount of the 'net available assets (on hand, due in, and on order) beyond the reorder point. The EOQ does not apply to insurance, life-of-type (L-O-T) items, and non-CLSSA foreign military sales requirements.

(3) The EOQ is the full EOQ at the date of last buy for

those items that had a buy during the computation period; it is that portion of the full EOQ remaining at the end of the computation period for those items for which the most recent buy occurred in a prior period.

j. **Procurement Quantity**. The procurement "quantity will represent the secondary item buys calculated by other approved requirements determination methods, such as readiness based sparing models, simulated to occur during the computation period.

3. Non-Recurring Requirements

a. **General**. Non-recurring requirements are divided into five kinds: insurance, L-O-T, initial spares, planned programs, and foreign military sales. Unlike recurring requirements, safety levels are not computed for non-recurring requirements. With the exception of insurance and planned programs, the ALT, PLT , EOQ, and repair cycle will be computed to determine when budgeting and acquisition actions must be initiated to have the assets available for issue when required.

b. **Insurance**. An insurance item is a stocked, essential item for which no failure is predicted through normal usage. If failure were to be experienced, or a loss should occur through accident, abnormal equipment or system failure, or other unexpected occurrence, lack of replacement would seriously hamper the operational capability of a weapon system, end item or component. Insurance items will have insurance requirements solely; they will not have safety levels or lead time requirements. Only one minimum replacement unit of an item may be stocked for insurance purposes. Normally, whenever an insurance item is issued, it may be replenished.

c. **Life-of-Type (L-O-T)** L-O-T items will be procured on a one-time basis, when all cost-effective and prudent alternatives have been exhausted, for the total future issues of an item that will no longer be produced after production of the major end item is completed. The procurement quantity shall be based on demand or on engineering estimates or mortality sufficient to support the applicable equipment until phased out. Some items are classified as L-O-T at the time they enter into the supply system; some other items enter the supply system as normal replenishment and are subsequently reclassified to L-O-T. Those latter items are ones normally produced by a sole source that decides not to produce them any longer and no other source can be found. Issue requirements are forecast for the balance of the life of the item, and a L-O-T buy is made. In the case in which production is terminated, the item is on hand. At the time the L-O-T assets are on hand, requirements for the year will be reflected in the forecast of demands being simulated as L-O-T demands. The remaining assets will be reflected in the L-O-T objective

as part of the approved acquisition objective. Once the L-O-T buy has been made, the item should never exhibit a deficit in the stratification.

d. Initial Spares. Initial spares will represent the one-time requirement to initially establish retail stockage in support of the deployment of new equipment or to augment retail stockage in support of the deployment of additional quantities of equipment. Additional quantities of equipment may be deployed more that once to the same bases and/or units or to different bases and/or units. Each deployment constitutes a separate requirement that does not recur for the same group of end items. Initial spares requirements may occur concurrently with recurring and other non-recurring requirements. Initial spares are discussed in DoD 4140.1-R, chapter 1 (reference (c)) .

e. Planned Programs. The wide variety of planned programs will include modernization programs, modification programs, one-time assembly of sets or kits, Government-furnished materiel for end-item production contracts, and ship overhaul programs. Planned programs will exclude planned depot maintenance programs that are considered recurring even though modernization and modification may occur in conjunction with depot overhaul or repair. Planned programs may continue over several years but would involve the same engineering change to the same end item only once.

f. Foreign Military Sales (FMS) Only those non-CLSSA FMS for which funded requisitions have been received are valid requirements for stratification. FMS requirements will be reflected only as materiel obligations with either future or past delivery dates. If on-hand assets are not sufficient, the balance should be placed on order as soon as required to meet the Required Delivery Dates. All requirements should have assets on order, on hand or a deficit reflected to offset the requirements .

4. Due Out. A due out will occur when a using activity submits a requisition for an item that is not immediately available for issue and the requisition is recorded as a commitment for issuing the quantity from future stock or purchasing it for direct delivery. When retail and wholesale requirements are reflected in the same table, due out to the included retail activities should not be reflected in the wholesale segment because that would duplicate the retail due out. However, dues out for those activities not included in the table; e.g., other Military Services and FMS, should be included. All requirements should have assets on order, on hand or a deficit reflected to offset the requirements.

5. Retention. The retention category in the stratification will include economic and contingency retention. These retention categories will be a stock retention objective only.

a. Economic Retention. Economic retention will be the portion of the quantity on hand above the Approved Acquisition Objective that is determined to be more economical to retain for future peacetime issues instead of replacement of future issues by procurement.

b. Contingency Retention. Contingency retention will be the portion of the quantity on hand above the Approved Acquisition Objective for which there is no predictable demand or quantifiable requirements, and that will be retained for specific contingencies.

F. ASSETS

1. Primary Inventory Control Activity and/or Service Item Control Activity (PICA/SICA). When the DoD Component is the Integrated Materiel Manager and/or Primary Inventory Control Activity (IMM/PICA) for an item, all assets, except for excluded assets, in the custody of the ICP and recorded on the accountable records will be reported as gross assets in the stratification process. When the DoD Component is the Service Item Control Activity (SICA) for an item, gross assets will represent those assets that are on hand or due-in to the SICA and recorded on its accountable records. The excluded assets (identified in Table 1-3 below) are not reflected in the stratification reports. The net assets are equal to the gross assets minus the excluded assets.

2. Gross Assets. Gross assets as reflected in Matrix I will provide the basis for the reconciliation of inventory records and financial records. The assets reflected in Matrix III, processed at the latest acquisition value, will provide the basis for the secondary item portion of the DoD inventory report, DD-M(A)1OOO, required by DoD 4140.1-R, chapter 4 (reference (c)). Categories of excluded assets are described in paragraph a below.

a. Excluded Assets. Some assets may not be suitable for application to requirements because of their condition or availability. The excluded assets consist of those assigned total and partial exempt condition codes, those forecast for condemnation, unserviceable returns beyond the date of last buy, unserviceable returns beyond the date of last induction, and assets being held by one activity but are under the ownership of another activity. Each category of excluded assets is reported on a separate asset line and is deducted from the gross assets to arrive at the net assets available for application to the requirements.

(1) Exemptions - Total and Partial. The condition of some assets may make them exempt from application to requirements. For example, items assigned Condition Codes H, Condemned, and S, Scrap, cannot economically be made suitable for issue and are therefore totally exempt from application. Items assigned

Condition Codes such as J, Serviceable-Suspended, and L, Serviceable-Litigation, are partially exempt because some portion of the gross assets may not become available for issue. The DoD Components may reduce the gross assets with conditions codes identified as partially exempt based on their historical experience when less than **100 percent of the assets are expected to become available to satisfy requirements. The amount of the reduction is shown on the "Exemption" line.**

(2) Potential Condemnations

(a) Unserviceable assets on hand and due in on ICP records and those forecast to be received during the simulation will be discounted to recognize the potential condemnations in the repair process. The amount of discounted unserviceable reparable assets will appear on the "Condemnation" line. The discount rates for assets not inducted into a maintenance activity will be based on the depot level condemnation experience.

(b) As of any cutoff, the inducted assets have been in maintenance an average of one-half of the repair cycle time. During that time, some assets have been condemned; therefore, applying the full final condemnation rate would understate the recoverable assets . The appropriate discount rate for assets that are already inducted into maintenance is dependent on the operations of the specific maintenance activity. If condemnations occur early in the process and are recorded immediately, the rate should be low. Conversely, if the condemnations occur late in the process or are not recorded **immediately, the rate should be higher. Components will use rates that are most representative of the way their maintenance activities (including contractors) operate.**

(3) Beyond Date of Last Induction. For the simulation periods, CY, AY and BY, projected recoverable unserviceable returns are applied up to the date of the last induction in the stratifications. **Returns expected to be received subsequent to the last induction are not applied to the requirements in that fiscal year but are carried over to those of the next fiscal year. The excluded assets are displayed on a separate asset line in the matrices.**

b. Condition Codes. Table 1-3 displays the Military Standard Transaction and Reporting Procedures (MILSTRAP) condition c-odes, their definition, and their stratification assignment, including whether they are totally or partially exempt. The exhibit also indicates whether the partially exempt and nonexempt condition codes are applied as serviceable or unserviceable and whether assets may be discounted.

3. Projected Assets. Two types of assets are considered in the Stratifications - actual assets as of the cutoff date and projected assets generated by the simulation process. The CY will begin with

the assets on hand at the close of the quarter and will simulate the issues, returns, receipts from procurement and repair, inductions, awards, and procurement requests. The simulation will result in a projected asset position at the end of the CY. That closing asset position then becomes the opening position for the AY. The simulation process will be repeated for each of the subsequent fiscal years and end with the simulated asset position at the end of the BY.

Table 1-3
Asset Condition Code Assignment

Condition Code	MILSTRAP Definition	Exemp (a)	T/P (b)	Apply Servi-cable	Apply Unser-vicable	Discount Condem-nation
A, B and C	Serviceable	NO		X		NO
E	Unserviceable	NO			X	NO
F	Unserviceable -Reparable -Consumable	 NO YES	 T		 X	 YES
G	Unserviceable -incomplete	 NO			 X	 YES
H and S	Unserviceable -Condemned -Scrap	 YES YES	 T T			
J, K and L	Serviceable -Suspended -Odd Lot -Litigation	 YES YES YES	 P P P	 X X X		 NO NO NO
M	Unserviceable/ -In-work	 NO			 X	 YES
P	Unserviceable -Reclamation	 YES	 T			
Q and R	Suspended -Quality -Condition	 YES YES	 P P	 X X		 NO NO

a) Exempt-not included in processes.
b) T/P - Total/Partial inculsion

4, Potential Reutilization and/or Disposal Materiel. Assets above all authorized retention levels that:

a. Have been identified by an item manager for possible disposal but with poteial for reutilization within the Component, or

b. Have the potential for being sent by an item manager to the Defense Reutilization and Marketing Service (DRMS) for possible reutilization by another Component, a Federal, State or local government agency or sale to the public are stratified into the potential reutilization category.

These assets remain in this category until they are either reutilized by the Component or transferred to DRMS.